

CASS CITY PUBLIC SCHOOLS

Cass City, Michigan

Report on Financial Statements
(with required supplementary
and additional information)
June 30, 2007

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Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

August 29, 2007

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Cass City Public Schools
Cass City, Michigan 48726

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Cass City Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools as of June 30, 2007 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2007, on our consideration of the Cass City Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through vii and page 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Cass City Public Schools
August 29, 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cass City Public Schools' basic financial statements. The additional information on pages 23 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

Cass City School District, a K-12 school district located in Tuscola, Sanilac and Huron Counties, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cass City School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2007 and June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Assets		
Current assets	\$ 4,257,896	\$ 3,610,255
Capital assets	14,766,156	13,796,534
Less: Accumulated Depreciation	(6,424,750)	(6,360,041)
Capital Assets, net book value	<u>8,341,406</u>	<u>7,436,493</u>
Total assets	<u>\$12,599,302</u>	<u>\$11,046,748</u>
Liabilities		
Current liabilities	\$ 4,373,053	\$ 4,265,393
Long-term liabilities	<u>2,199,702</u>	<u>1,699,044</u>
Total liabilities	<u>\$ 6,572,755</u>	<u>\$ 5,964,437</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 5,673,000	\$ 5,427,904
Restricted for debt service	278,958	304,783
Unrestricted (Deficit)	<u>74,589</u>	<u>(650,376)</u>
Total net assets	<u>6,026,547</u>	<u>5,082,311</u>
Total liabilities and net assets	<u>\$12,599,302</u>	<u>\$11,046,748</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets increased by \$944,236. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. The depreciation expense for the fiscal years ended June 30, 2007 and June 30, 2006 was \$398,125 and \$413,891.

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2007, \$1,332,130 of expenditures were capitalized and recorded as assets of the District and \$77,514 for the year ended June 30, 2006. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$904,913 for the fiscal year ended June 30, 2007.

Results of Operations

For the fiscal year ended June 30, 2007, and June 30, 2006, the results of operations, on a District-wide basis, were:

	June 30, 2007		June 30, 2006	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property taxes	\$ 1,523,984	11.94%	\$1,501,532	11.88%
Investment earnings	75,185	0.59%	10,643	0.08%
State sources	10,013,860	78.48%	9,979,333	78.99%
Transfers from other districts	44,308	0.35%	54,260	0.43%
Sale of school property	72,336	0.57%	2,575	0.02%
Other	59,479	0.47%	82,222	0.65%
Total general revenues	11,789,152	92.40%	11,659,461	92.05%
Program Revenues				
Charges for services	291,131	2.28%	320,988	2.54%
Operating grants	678,197	5.32%	683,547	5.41%
Total revenues	12,758,480	100.00%	12,635,100	100.00%
Expenses				
Instruction	7,513,207	63.59%	8,837,941	61.56%
Support services	3,000,365	25.40%	3,783,549	26.81%
Community services	59,401	0.50%	111,820	0.92%
Food services	523,011	4.43%	541,993	4.47%
Athletics	206,365	1.75%	252,918	1.92%
Interest on long-term debt	113,770	0.96%	128,235	1.28%
Unallocated depreciation expense	398,125	3.37%	413,891	3.04%
	11,814,244	100.00%	14,070,347	100.00%
Increase (decrease) in net assets	\$ 944,236		(\$1,435,247)	

Cass City Public School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2007

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2006-2007 fiscal year, the district levied \$833,501 non-homestead property taxes. This represented an increase of 13.23% from the prior year. The amount of unpaid property taxes at June 30, 2007, less an estimate for those deemed to be un-collectible, was \$17,000.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from prior year
2006 - 2007	\$833,501	13.23
2005 - 2006	736,109	(1.81)
2004 - 2005	749,703	6.04
2003 - 2004	707,005	8.87
2002 - 2003	649,424	(8.96)

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2006 - 2007 fiscal year, the District's foundation allowance was \$7,085 per student FTE, which represented an increase of \$210 over the amount received for the 2005 - 2006 fiscal year.

3. Student Enrollment

The following schedule compares actual to budgeted FTE for the blended student enrollment for the past five fiscal years:

	Actual Blended Student FTE	Budgeted Blended Student FTE	Variance Favorable (Unfavorable)
2006 - 2007	1,463	1,463	0
2005 - 2006	1,496	1,483	13
2004 - 2005	1,520	1,514	6
2003 - 2004	1,531	1,530	1
2002 - 2003	1,575	1,580	(5)

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2007, federal, state and other grants accounted for \$678,197. This represents a decrease of \$5,350 over the total grant sources received for the 2005 – 2006 fiscal year.

5. County Special Education Allocation

For the fiscal year ended June 30, 2007, the District received an allocation from the Tuscola Intermediate School District in the amount of \$38,308 to assist with the education of students with special needs.

6. Interest Earnings

The District received interest on its investments in the amount of \$75,185 for the fiscal year ended June 30, 2007. Interest revenues are up from the prior fiscal year by \$64,542.

7. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund balances is shown below.

Expenditures	2006--2007 Fiscal Year	2005--2006 Fiscal Year	Increase (Decrease)
Instruction	\$ 7,576,946	\$ 8,355,860	\$ (778,914)
Supporting Services	2,934,514	3,672,053	(737,539)
Food service activities	523,011	541,993	(18,982)
Athletic activities	206,365	252,918	(46,553)
Community service activities	59,401	111,820	(52,419)
Capital outlay	1,374,777	229,485	1,145,292
Debt service	<u>735,349</u>	<u>802,280</u>	<u>(66,931)</u>
Total Expenditures	<u>\$13,410,363</u>	<u>\$13,966,409</u>	<u>\$ (556,046)</u>

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2006 – 2007 fiscal year, the district amended the general fund budget two times with the Board adopting the final changes in June 2007. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (negative)	% Variance
Total revenues	\$11,687,973	\$11,476,482	\$11,429,490	\$ (46,992)	(0.41)%
Expenditures:					
Instruction	\$ 7,566,191	\$ 7,596,995	\$ 7,580,485	\$ 16,510	2.17%
Supporting services	3,721,579	4,179,047	4,305,752	(126,705)	(3.03)%
Community services	<u>18,787</u>	<u>86,946</u>	<u>59,401</u>	<u>27,545</u>	<u>31.68%</u>
Total expenditures	<u>\$11,306,557</u>	<u>\$11,862,988</u>	<u>\$11,945,638</u>	<u>\$(82,650)</u>	<u>(6.97)%</u>
Other Financing sources (uses):					
Loan proceeds	\$ 0	\$ 1,229,346	\$ 1,228,355	\$ (991)	.08%
Transfer to athletic fund	\$ (160,000)	\$ (152,197)	\$ (152,420)	\$ (223)	(0.15)%

Capital Asset and Debt Administration

Capital Assets

By the end of the 2006 - 2007 fiscal year, the district had invested \$14,766,156 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$904,913 over the prior fiscal year. Depreciated expense for the year amounted to \$398,125 bringing the accumulation to \$6,424,750 as of June 30, 2007.

Long- term Debt

At June 30, 2007, the District had \$3,040,384 in long-term debt outstanding, of which \$2,655,887 was bonded debt. This represents an increase in bonded debt of \$684,627 over the amount outstanding at the closed of the prior fiscal year.

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2007 – 2008 fiscal year. The early indication is that the foundation allowance will remain uncertain well into the fiscal year which will pose a challenge to the District to maintain structural balance while continuing with its educational programming.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has not managed to keep down the growth in the rate districts fund the retirement system over the past few years, and the increase in the number of retirees projected to occur over the next few years may also result in higher annual increases.
- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contracting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

Ronald Wilson, Superintendent
Cass City Public Schools
4868 N. Seeger St.
Cass City, MI 48726
(989) 872-2200

BASIC FINANCIAL STATEMENTS

CASS CITY PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2007

	ASSETS	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS:		
Cash		\$ 2,485,248
Investments		24,715
Due from other governmental units		1,691,086
Accounts Receivable		39,847
Property taxes receivable		17,000
Due from other funds		-
		<hr/>
TOTAL CURRENT ASSETS		4,257,896
		<hr/>
NONCURRENT ASSETS:		
Capital assets		14,766,156
Less accumulated depreciation		(6,424,750)
		<hr/>
TOTAL NONCURRENT ASSETS		8,341,406
		<hr/>
TOTAL ASSETS		\$ 12,599,302
		<hr/>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:		
Accounts payable		\$ 205,274
Notes payable		2,450,000
Accrued salaries & wages		501,827
Accrued payroll taxes		60,114
Accrued interest		25,737
Benefits payable		194,179
Retirement payable		78,594
Deferred revenue		16,645
Retirement incentive payable		110,000
Current portion of long term debt		730,683
		<hr/>
TOTAL CURRENT LIABILITIES		4,373,053
		<hr/>
NONCURRENT LIABILITIES:		
Noncurrent portion of long term debt		1,937,723
Retirement incentive payable		80,000
Compensated Absences		181,979
		<hr/>
TOTAL NONCURRENT LIABILITIES		2,199,702
		<hr/>
NET ASSETS:		
Invested in capital assets, net of related debt		5,673,000
Restricted for debt service		278,958
Unrestricted		74,589
		<hr/>
TOTAL NET ASSETS		6,026,547
		<hr/>
TOTAL LIABILITIES AND NET ASSETS		\$ 12,599,302
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The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Expenses	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 7,513,207	\$ 14,655	\$ 272,570	\$ (7,225,982)
Support services	3,000,365	6,281	116,816	(2,877,268)
Community services	59,401			(59,401)
Food services	523,011	206,734	288,811	(27,466)
Athletics	206,365	63,461		(142,904)
Interest on long-term debt	113,770			(113,770)
Unallocated depreciation	398,125			(398,125)
Total governmental activities	<u>\$ 11,814,244</u>	<u>\$ 291,131</u>	<u>\$ 678,197</u>	(10,844,916)
General revenues:				
Property taxes, levied for general purposes				833,501
Property taxes, levied for debt service				690,483
State of Michigan school aid unrestricted				10,013,860
Investment revenue				75,185
Transfer from other districts				44,308
Sale of school property				72,336
Miscellaneous				59,479
Total general revenue				<u>11,789,152</u>
Change in net assets				944,236
Net assets, beginning of year				<u>5,082,311</u>
Net assets, end of year				<u>\$ 6,026,547</u>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	GENERAL FUND	DEBT SERVICE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash	\$ 2,167,351	\$ 293,964	\$ 23,933	\$ 2,485,248
Investments	24,715			24,715
Due from other governmental units	1,691,086			1,691,086
Accounts receivable	37,633	1,789	425	39,847
Due from other funds	0	8,942	9,572	18,514
TOTAL ASSETS	\$ 3,920,785	\$ 304,695	\$ 33,930	\$ 4,259,410
<u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES:				
Accounts payable	\$ 204,587		\$ 687	\$ 205,274
Notes payable	2,450,000			2,450,000
Accrued interest	14,782			14,782
Accrued salaries & wages	501,827			501,827
Due to other funds	18,514		-	18,514
Deferred revenue	16,645			16,645
Accrued payroll taxes	60,114			60,114
Benefits payable	194,179			194,179
Retirement payable	78,594			78,594
TOTAL LIABILITIES	3,539,242		687	3,539,929
FUND BALANCE:				
Unreserved	381,543		33,243	414,786
Reserved for debt service		\$ 304,695		304,695
TOTAL FUND BALANCE	381,543	304,695	33,243	719,481
TOTAL LIABILITIES & FUND BALANCE	\$ 3,920,785	\$ 304,695	\$ 33,930	\$ 4,259,410

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 719,481
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	14,766,156
Accumulated depreciation is:	(6,424,750)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(2,668,406)
Retirement incentive payable	(190,000)
Compensated absences	(181,979)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(10,955)

Balance of taxes receivable at 6/30/07 less allowance for doubtful accounts, expected to be collected after September 1, 2007

17,000

Net Assets of Governmental Activities	<u>\$ 6,026,547</u>
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CASS CITY PUBLIC SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	GENERAL FUND	DEBT SERVICE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Local sources				
Property Tax	\$ 833,501	\$ 690,483	-	\$ 1,523,984
Interest income	63,531	10,641	\$ 1,013	75,185
Food sales and athletic admissions			301,218	301,218
Other	49,392		-	49,392
State sources	9,977,036	-	36,824	10,013,860
Federal sources	389,386		288,811	678,197
Other transactions:				
Transfers from other districts	44,308			44,308
TOTAL REVENUES	11,357,154	701,124	627,866	12,686,144
EXPENDITURES:				
Instruction	7,576,946			7,576,946
Supporting services	2,934,514			2,934,514
Community services	59,401			59,401
Food services			523,011	523,011
Athletics			206,365	206,365
Capital outlay	1,374,777			1,374,777
Debt service:				
Principal retirement	-	640,000		640,000
Interest	-	94,720		94,720
Other costs		629		629
TOTAL EXPENDITURES	11,945,638	735,349	729,376	13,410,363
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(588,484)	(34,225)	(101,510)	(724,219)
OTHER FINANCING SOURCES (USES):				
Transfer from General Fund			152,420	152,420
Transfer to Athletic Fund	(152,420)			(152,420)
Principal payments	(50,852)			(50,852)
Interest payments	(26,538)			(26,538)
Loan Proceeds	1,228,355			1,228,355
Proceeds from Bus Loan	122,314			122,314
Sale of school property	72,336			72,336
TOTAL OTHER FINANCING SOURCES (USES)	1,193,195	-	152,420	1,345,615
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	604,711	(34,225)	50,910	621,396
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(223,168)	338,920	(17,667)	98,085
FUND BALANCE - END OF YEAR	\$ 381,543	\$ 304,695	\$ 33,243	\$ 719,481

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2007

Total net change in fund balances--governmental funds	\$ 621,396
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(398,125)
Capital outlay	1,332,130
Basis of assets sold	(29,092)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	19,072
Accrued interest payable at the end of the year	(10,955)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	690,852
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Proceeds on long-term debt is a revenue in the governmental funds, but not in the statement of activities (it is an increase of liabilities)	(1,350,669)
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Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(17,000)
Accrued revenue at the end of the year	17,000

Compensated retirement incentives are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued retirement incentives at the beginning of the year	240,000
Accrued retirement incentives at the end of the year	(190,000)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued absences at the beginning of the year	201,606
Accrued absences at the end of the year	(181,979)

Change in net assets of governmental activities	\$ 944,236
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The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

	<u>AGENCY FUNDS</u>
CURRENT ASSETS	
Cash	\$ 97,218
Investments	
<i>TOTAL ASSETS</i>	<u>\$ 97,218</u>
 LIABILITIES	
Due to student organizations	\$ 97,218
Due to general fund	
<i>TOTAL LIABILITIES</i>	<u>\$ 97,218</u>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The School district was organized in 1856 and presently covers approximately 200 square miles covering all or parts of 13 Townships in Tuscola County. The School District operates under an elected School Board (7 members) and provides educational services to approximately 1,460 students.

The basic financial statements of the Cass City Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Cass City Public Schools (the "District") is governed by the Cass City Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in GASB Statement #14 and #39, nor is the District a component unit of another entity.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has largely been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use, or directly benefit from goods or services by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the Intermediate School District and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District utilizes restricted resources to finance their respective, qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. These functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued):

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds:

Governmental funds are those funds through which most school district functions are typically financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following **major** governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the servicing of general long-term debt. This fund is not a major fund, however, the District reports it as one.

The District reports the following **nonmajor** governmental fund:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The school service funds of the District are accounted for as special revenue funds and include the athletic and school lunch programs.

Fiduciary Funds:

Fiduciary funds account for assets held by the district in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the district under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following **fiduciary** funds:

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental funds are used to account for the District's general government activities. Governmental fund types use the flow of *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007 the foundation allowance was based on the pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2006 to August, 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

For the year ended June 30, 2007 \$194,087 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by MDE.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost. The District had no investments at June 30th.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds Balance Sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year-end). Amounts received subsequent to August 31 are recognized as revenue when collected.

The District along with certain other governmental units is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund - Non Homestead	18.00
1996 Debt Service Fund	3.25

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Prepaid items.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as followed:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences.

Each teacher shall be credited with six sick leave days at the beginning of each semester that can be accumulated to eighty-two days. All unused sick leave days in excess of seventy days shall be paid to the teacher at the end of the school year on the basis of 80% of the substitute teacher rate per day. Following this policy assures no accruals for compensated absences at year-end. If a teacher leaves the district, they forfeit their accumulated sick leave time.

7. Unemployment Insurance.

The District reimburses the Michigan Employment Security Commission (MESA) for the actual amount of unemployment benefits disbursed by the MESA on behalf of the District. Billings received for amounts paid by the MESA through June 30, are accrued, if material.

8. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

9. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

10. Memorandum only - Total Column.

The total column on the combined general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

11. Use of Estimates.

The process of preparing basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U. S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY (Continued):

4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended, Supplemental appropriations were made during the year with the last one approved prior to June 30.

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:

As of June 30, 2007 the District had the following investments.

Investment Type	Fair value	Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment pool -MICMS	\$24,715	0.0027	AAAm	100.0%
Total fair value	<u>\$24,715</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK (CONTINUED):

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At June 30, 2007, the carrying amount of the District's deposits was \$2,582,466 and the bank balance was \$2,615,277. Of the bank balance, \$187,111 was covered by federal deposit insurance while the remaining bank balance of \$2,428,166 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 2,485,248
Fiduciary Funds	97,218
Investments - District wide	<u>24,715</u>
	<u><u>\$ 2,607,181</u></u>

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 4 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and post-retirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2007, 2006, and 2005, were \$1,101,925, \$1,070,319, and \$1,006,506, respectively, and were equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-Employment Benefits – Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

NOTE 5 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees'. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund		\$18,514
Special Revenue Fund:		
Food Service	\$ 9,572	-
Debt Service Fund	<u>8,942</u>	<u>-</u>
Total	<u>\$18,514</u>	<u>\$18,514</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 7 - LONG-TERM DEBT:

The following is a summary of the serial bonds of the school district for the year ended June 30, 2007:

	<u>SERIAL BONDS</u>
Balance payable - July 1, 2006	\$2,450,194
1996 Bonds paid	(640,000)
Skyward software loan payment	(24,810)
Durant debt payment	-
Accumulated Compensated absences	(19,627)
Teacher early retirement incentives paid	(80,000)
Teacher early retirement incentives: 2006-07	30,000
New Bus Loan	122,314
Energy Program Loan	1,228,355
Energy Program Loan Payment	<u>(26,042)</u>
Balance payable June 30, 2007	<u>\$3,040,384</u>

As of June 30, 2007, the school district had the following outstanding bonds and notes payable:

1996 bond to erect a new middle school building; 4.90% to 5.00% interest	\$1,280,000
1998 Durant bonds; 4.76% interest	51,260
2004 Skyward software loan; 3.5% interest for 3 years	12,518
Accumulated Compensated absences	181,979
Teacher early retirement incentives	190,000
Energy Program Loan	1,202,313
Bus Loan; 4.49% interest for 5 years	<u>122,314</u>
Total	<u>\$3,040,384</u>

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 7 - LONG-TERM DEBT (continued):

The annual requirements to amortize long-term debt outstanding as of June 30, 2007 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 840,683	\$ 118,591	\$ 959,274
2009	812,406	85,271	897,677
2010	111,218	53,831	165,049
2011	102,467	45,017	147,484
2012	106,881	40,602	147,483
2013-2017	419,340	145,478	564,818
2018-2022	465,410	49,608	515,018
Accumulated Compensated Absences	<u>181,979</u>	<u>0</u>	<u>181,979</u>
TOTAL	<u>\$3,040,384</u>	<u>\$538,398</u>	<u>\$3,578,782</u>

An amount of \$293,964 is available in the debt service fund to service the general obligation debt.

Interest expense (all funds) for the year ended June 30, 2007 was \$185,888.

NOTE 8 - OPERATING LEASES:

The School District entered into a 5-year lease agreement with Capital Advantage Leasing for the lease of new copy machines and printers. At June 30, 2007, future lease payments under such leases are as follows:

June 30, 2008	\$22,764
June 30, 2009	22,764
June 30, 2010	22,764
June 30, 2007	22,764
June 30, 2007	17,073

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 9 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2007</u>
Assets not being depreciated – land	\$ 134,775			\$ 134,775
Other capital assets:				
Land improvements	224,076			224,076
Building and additions	10,876,351	\$1,203,352	\$(239,670)	11,840,033
Machinery and equipment	1,566,807	6,464	(7,027)	1,566,244
Transportation equipment	<u>994,525</u>	<u>122,314</u>	<u>(115,811)</u>	<u>1,001,028</u>
Subtotal	13,661,759	1,332,130	(362,508)	14,631,381
Accumulated depreciation	<u>(6,360,041)</u>	<u>(398,125)</u>	333,416	<u>(6,424,750)</u>
Net other capital assets:	<u>7,301,718</u>	<u>934,005</u>	<u>(29,092)</u>	<u>8,206,631</u>
Net capital assets	<u>\$7,436,493</u>	<u>\$ 934,005</u>	<u>\$ (29,092)</u>	<u>\$8,341,406</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$398,195. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 10 – TRANSFERS:

During the current fiscal year the general fund transferred \$152,420 to the athletic fund. The transfer was to subsidize operations.

NOTE 11 - CONTINGENCY:

The District has been named as a defendant in two separate lawsuits initiated by a former employee and a current employee. The claims asserted are violations of equal employment opportunity and civil rights. The cases are currently pending. The cases are being vigorously defended on behalf of the School District. Attorneys for the School District believe insurance coverage is adequate to cover any potential damages awarded.

NOTE 12 – STATE AID ANTICIPATION NOTE:

The School District borrowed \$2,450,000 in April 2007 from a local bank with interest at 3.62%. This short-term loan is due April 2008.

REQUIRED SUPPLEMENTARY INFORMATION

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	BUDGET			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Local sources	\$ 876,539	\$ 956,025	\$ 946,424	\$ (9,601)
State source	10,358,507	9,996,899	9,977,036	(19,863)
Federal sources	415,927	412,218	389,386	(22,832)
Other transactions:				
Transfers from other districts	37,000	39,004	44,308	5,304
Sale of school property		72,336	72,336	-
TOTAL REVENUES	11,687,973	11,476,482	11,429,490	(46,992)
EXPENDITURES:				
Instruction	\$ 7,566,191	7,596,995	7,580,485	16,510
Supporting services	3,721,579	4,179,047	4,305,752	(126,705)
Community services	18,787	86,946	59,401	27,545
TOTAL EXPENDITURES	11,306,557	11,862,988	11,945,638	(82,650)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	381,416	(386,506)	(516,148)	(129,642)
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	1,229,346	1,228,355	(991)
Proceeds from Bus Loan	-	-	122,314	122,314
Principal payments	-	-	(50,852)	(50,852)
Interest payments	-	(51,530)	(26,538)	24,992
Transfer to Athletic fund	(160,000)	(152,197)	(152,420)	(223)
TOTAL OTHER FINANCING SOURCES (USES)	(160,000)	1,025,619	1,120,859	95,240
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	221,416	639,113	604,711	(34,402)
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(223,168)	(223,168)	(223,168)	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ (1,752)	\$ 415,945	\$ 381,543	\$ (34,402)

The accompanying notes are an integral part of the financial statements.

ADDITIONAL INFORMATION

CASS CITY PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2007

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 23,933	\$ 23,933
Accounts receivable	425	425
Due from other funds	9,572	9,572
TOTAL ASSETS	\$ 33,930	\$ 33,930
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Accounts Payable	\$ 687	\$ 687
Due to other funds	-	-
TOTAL LIABILITIES	687	687
 FUND BALANCE:		
Unreserved	33,243	33,243
TOTAL FUND BALANCE	33,243	33,243
TOTAL LIABILITIES & FUND BALANCE	\$ 33,930	\$ 33,930

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2007

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2007</u>
REVENUES:		
Local sources		
Property Tax		-
Interest Income	\$ 1,013	\$ 1,013
Food sales and athletic admissions	301,218	301,218
Other		-
State sources	36,824	36,824
Federal sources	<u>288,811</u>	<u>288,811</u>
TOTAL REVENUES	<u>627,866</u>	<u>627,866</u>
EXPENDITURES:		
Food services	523,011	523,011
Athletics	<u>206,365</u>	<u>206,365</u>
TOTAL EXPENDITURES	729,376	729,376
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(101,510)</u>	<u>(101,510)</u>
OTHER FINANCING SOURCES (USES):		
Transfer from General Fund	<u>152,420</u>	<u>152,420</u>
TOTAL OTHER FINANCING SOURCES (USES)	152,420	152,420
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>50,910</u>	<u>50,910</u>
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>(17,667)</u>	<u>(17,667)</u>
FUND BALANCE - END OF YEAR	<u>\$ 33,243</u>	<u>\$ 33,243</u>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE FROM LOCAL SOURCES:			
Property Tax	\$ 842,443	\$ 833,501	\$ (8,942)
Interest income	62,539	63,531	992
Tuition and fees	12,630	12,630	-
Rental of building	8,306	8,306	-
Other	30,107	28,456	(1,651)
TOTAL REVENUE FROM LOCAL SOURCES	<u>956,025</u>	<u>946,424</u>	<u>(9,601)</u>
REVENUE FROM STATE SOURCES:			
State aid	9,984,392	9,964,529	(19,863)
Durant funds	12,507	12,507	-
TOTAL REVENUE FROM STATE SOURCES	<u>9,996,899</u>	<u>9,977,036</u>	<u>(19,863)</u>
REVENUE FROM FEDERAL SOURCES:			
Title I	290,086	290,511	425
Class Size Reduction Program	93,390	87,644	(5,746)
Homeland Security	-	-	-
Other	28,742	11,231	(17,511)
TOTAL REVENUE FROM FEDERAL SOURCES	<u>412,218</u>	<u>389,386</u>	<u>(22,832)</u>
OTHER FINANCING SOURCES:			
Transfers from Other Districts	39,004	44,308	5,304
Loan Proceeds	1,229,346	1,228,355	(991)
Proceeds from Bus Loan	-	122,314	122,314
Sale of School Property	72,336	72,336	-
TOTAL OTHER FINANCING SOURCES:	<u>1,340,686</u>	<u>1,467,313</u>	<u>126,627</u>
TOTAL REVENUES	<u>\$ 12,705,828</u>	<u>\$ 12,780,159</u>	<u>\$ 74,331</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
Basic Programs:			
Elementary:			
Salaries - teachers	\$ 1,293,993	\$ 1,265,935	\$ 28,058
Salaries - Gesell & Homebound teacher	1,458	1,458	-
Salaries - substitute teachers	28,223	28,223	-
Salaries - aides	61,341	48,719	12,622
Travel	4,760	4,760	-
Teaching supplies & textbooks	49,335	47,446	1,889
Employee benefits	688,751	690,431	(1,680)
Capital outlay	-	-	-
Other expenses	4,438	4,438	-
Total Elementary	<u>2,132,299</u>	<u>2,091,410</u>	<u>40,889</u>
Middle/Junior High:			
Salaries - teachers	1,236,565	1,240,742	(4,177)
Salaries - substitute teachers	14,600	14,600	-
Salaries - aides	10,059	10,059	-
Salaries - Homebound teachers	-	-	-
Teaching supplies & textbooks	53,702	53,382	320
Employee benefits	677,685	679,373	(1,688)
Capital outlay	-	-	-
Travel	3,000	360	2,640
Other expenses	1,433	1,433	-
Total Middle/Junior High	<u>1,997,044</u>	<u>1,999,949</u>	<u>(2,905)</u>
High School:			
Salaries - teachers	1,202,040	1,202,040	-
Salaries - substitute teachers	10,562	10,562	-
Salaries - Homebound teachers	-	-	-
Salaries - drivers education	10,807	10,807	-
Teaching supplies & textbooks	61,214	55,723	5,491
Travel	37,234	34,684	2,550
Drivers education supplies	1,382	1,382	-
Employee benefits	657,485	659,174	(1,689)
Capital outlay	-	3,539	(3,539)
Purchased services	311	311	-
Other expenses	134,614	94,749	39,865
Total High School	<u>2,115,649</u>	<u>2,072,971</u>	<u>42,678</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
Added Needs:			
Special Education:			
Salaries - Director	-	\$ 4,500	\$ (4,500)
Salaries - teachers	\$ 488,037	483,837	4,200
Salaries - teachers aides	47,572	47,572	-
Teaching supplies & textbooks	(1,337)	-	(1,337)
Travel	58	58	-
Payments to I.S.D.	(39,865)	-	(39,865)
Other expenses	400	400	-
Employee benefits	235,664	235,664	-
Total Special Education	<u>730,529</u>	<u>772,031</u>	<u>(41,502)</u>
Compensatory Education:			
Salaries - directors	15,216	15,216	-
Salaries - teachers	133,225	136,727	(3,502)
Salaries - teachers aides	123,926	123,926	-
Teaching supplies	3,825	4,250	(425)
Audit	800	800	-
Capital outlay	-	-	-
Travel, workshop & conferences	5,380	5,380	-
Employee benefits	85,674	80,569	5,105
Total Compensatory Education	<u>368,046</u>	<u>366,868</u>	<u>1,178</u>
Title II:			
Salaries	-	-	-
Employee benefits	20,957	20,957	-
Purchased Service	29,884	29,884	-
Teaching Supplies	350	2,812	(2,462)
Capital Outlay	-	-	-
Total Title II	<u>51,191</u>	<u>53,653</u>	<u>(2,462)</u>
Drug Free schools	<u>3,395</u>	<u>3,395</u>	<u>-</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
Added Needs, (Continued):			
Vocational Education:			
Salaries - directors	-	-	-
Salaries - teachers	-	-	-
Salaries - substitute teachers	-	-	-
Teaching supplies	-	-	-
Employee benefits	-	-	-
Travel	-	-	-
Capital outlay	-	-	-
Total Vocational Education	<u>-</u>	<u>-</u>	<u>-</u>
At-Risk:			
Salaries - teachers	\$ 109,031	\$ 127,031	\$ (18,000)
Employee benefits	60,915	65,415	(4,500)
Purchased service	19,622	19,622	-
Capital Outlay	-	-	-
Teaching supplies	-	533	(533)
Miscellaneous	-	-	-
Total At-Risk	<u>189,568</u>	<u>212,601</u>	<u>(23,033)</u>
Improvement of Instruction:			
Salaries	-	-	-
Benefits	-	-	-
Purchased services	<u>9,274</u>	<u>7,607</u>	<u>1,667</u>
Total Improvement of Instruction	<u>9,274</u>	<u>7,607</u>	<u>1,667</u>
TOTAL INSTRUCTION	<u>7,596,995</u>	<u>7,580,485</u>	<u>16,510</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES:			
Pupil Services:			
Guidance Services:			
Salaries - counselors	\$ 73,566	\$ 73,566	-
Salaries-clerical	23,620	23,620	-
Supplies & other costs	2,733	2,709	\$ 24
Travel	499	499	-
Employee benefits	47,011	46,949	62
Capital outlay	-	-	-
Total Guidance Services	<u>147,429</u>	<u>147,343</u>	<u>86</u>
Health Services:			
Salary - nurse	32,783	32,783	-
Employee benefits	9,402	9,402	-
Local travel	-	-	-
Supplies & other cost	608	608	-
Capital outlay	-	-	-
Total Health Services	<u>42,793</u>	<u>42,793</u>	<u>-</u>
Social Worker:			
Salaries	9,228	9,228	-
Travel	132	132	-
Supplies & other cost	-	-	-
Employee benefits	8,747	8,747	-
Total Social Worker	<u>18,107</u>	<u>18,107</u>	<u>-</u>
Crossing Guards:			
Salaries	8,158	8,158	-
Employee benefits	3,362	3,362	-
Supplies	-	-	-
Total Crossing Guards	<u>11,520</u>	<u>11,520</u>	<u>-</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Library and A-V:			
Salaries - librarians	\$ 102,799	\$ 102,799	-
Salaries - aides	26,747	26,747	-
Library books	7,989	7,953	\$ 36
Periodicals	3,444	3,444	-
Miscellaneous supplies	1,847	1,847	-
Capital outlay	-	-	-
Employee benefits	81,054	73,190	7,864
Total Library and A-V	<u>223,880</u>	<u>215,980</u>	<u>7,900</u>
Computer Technology			
Salaries - teachers	72,990	72,990	-
Salaries - aides	-	-	-
Salaries - custodial	-	-	-
Supplies & other costs	49,640	49,334	306
Contract services	339	339	-
Employee benefits	34,586	34,586	-
Lease payments	-	-	-
Capital outlay	26,585	24,123	2,462
Total Computer Technology	<u>184,140</u>	<u>181,372</u>	<u>2,768</u>
General Administration:			
Board of Education:			
Salaries	-	-	-
Travel	-	-	-
Supplies & other cost	36	36	-
Other expenses	7,455	7,515	(60)
Total Board of Education	<u>7,491</u>	<u>7,551</u>	<u>(60)</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Executive Administration:			
Salaries - superintendent	\$ 128,435	\$ 128,435	-
Salaries - clerical	18,892	18,892	-
Personnel services	104,150	104,150	-
Audit and legal services	24,258	24,258	-
Elections	1,982	1,982	-
Travel, conference & workshops	3,617	3,617	-
Telephone	1,637	1,714	\$ (77)
Advertising	3,133	3,133	-
Printing & publishing	650	650	-
Office Supplies	4,494	4,494	-
Supplies & other cost	3,129	3,288	(159)
Employee benefits	53,787	53,787	-
Capital outlay	-	-	-
Total Executive Administration	<u>348,164</u>	<u>348,400</u>	<u>(236)</u>
School Administration:			
Salaries - principals	247,367	247,367	-
Salaries - clerical	96,230	96,230	-
Employee benefits	192,817	192,817	-
Travel, conferences & workshop	2,106	2,106	-
Telephone	5,522	6,465	(943)
Supplies & other costs	10,126	10,126	-
Agri-valley connection	-	-	-
Capital outlay	148	148	-
Contract service	38,621	45,155	(6,534)
Other expenses	4,476	1,676	2,800
Total School Administration	<u>597,413</u>	<u>602,090</u>	<u>(4,677)</u>
Business Administration:			
Fiscal Services:			
Contracted services - data processing	<u>13,145</u>	<u>13,145</u>	<u>-</u>
Total Fiscal Services	<u>13,145</u>	<u>13,145</u>	<u>-</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Operations & Maintenance of Plant:			
Salaries - supervisors	\$ 86,237	\$ 86,237	-
Salaries - custodians	183,617	183,617	-
Salaries - temporary help	4,556	4,556	-
Heating fuel	142,651	142,651	-
Electricity	128,798	123,375	\$ 5,423
Water & sewage	19,757	19,757	-
Trash disposal	7,238	7,238	-
Contracted services	53,495	53,427	68
Rental equipment	543	543	-
Supplies & other costs	45,668	44,867	801
Other expenses	344	344	-
Capital outlay	1,224,801	1,224,801	-
Employee benefits	178,221	178,161	60
Total Operations & Maintenance of Plant	<u>2,075,926</u>	<u>2,069,574</u>	<u>6,352</u>
Pupil Transportation:			
Salaries - supervisor	14,585	14,585	-
Salaries - clerical	-	-	-
Salaries - drivers	141,476	141,476	-
Salary - bus mechanic	33,457	33,457	-
Insurance	14,024	14,024	-
Gas, oil & grease	60,561	60,561	-
Tires, tubes & batteries	-	-	-
Travel	111	111	-
Vehicle repairs	26,990	26,990	-
Building repairs	169	169	-
Miscellaneous expense	6,647	6,755	(108)
Capital outlay - vehicles	-	122,314	(122,314)
Employee benefits	82,690	82,690	-
Other expenses	1,729	1,324	405
Total Pupil Transportation	<u>382,439</u>	<u>504,456</u>	<u>(122,017)</u>
Fixed Charges:			
Building insurance	29,921	29,921	-
Student liability insurance	2,478	2,478	-
Employee benefits	-	-	-
Tax abatement	-	19,854	(19,854)
Interest expense	94,201	91,168	3,033
Total Fixed Charges	<u>126,600</u>	<u>143,421</u>	<u>(16,821)</u>
TOTAL SUPPORTING SERVICES	<u>4,179,047</u>	<u>4,305,752</u>	<u>(126,705)</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
COMMUNITY SERVICES:			
Community Education:			
Salaries	-	-	-
Employee benefits	-	-	-
Purchased service	-	-	-
Teaching supplies & textbooks	-	-	-
Other expenses	-	-	-
Total Community Education	-	-	-
Early Childhood Program:			
Administrative support	\$ 8,795	\$ 4,295	\$ 4,500
Salaries - teachers	36,884	21,872	15,012
Salaries - bus drivers	-	-	-
Salaries - aides	12,891	9,891	3,000
Salaries - clerical	-	-	-
Travel & conference	73	73	-
Supplies & other costs	1,415	1,415	-
Employee benefits	23,587	19,087	4,500
Other expenses	3,301	2,768	533
Total Early Childhood Program	86,946	59,401	27,545
TOTAL COMMUNITY SERVICES	86,946	59,401	27,545
TOTAL EXPENDITURES	11,862,988	11,945,638	(82,650)
OTHER FINANCING USES:			
Operating transfer - Athletic Fund & Hot Lunch	152,197	152,420	(223)
Principal payments	-	50,852	(50,852)
Interest payments	51,530	26,538	24,992
OTHER FINANCING USES:	203,727	229,810	(26,083)
TOTAL EXPENDITURES & OTHER FINANCING USES	<u>\$ 12,066,715</u>	<u>\$ 12,175,448</u>	<u>\$ (108,733)</u>

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2007

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>COMBINED</u>
<u>ASSETS</u>			
Cash in bank	\$ 12,880	\$ 11,053	\$ 23,933
Accounts receivable	425		425
Due from other funds	9,572		9,572
TOTAL ASSETS	<u>\$ 22,877</u>	<u>\$ 11,053</u>	<u>\$ 33,930</u>
 <u>LIABILITIES & FUND BALANCE</u>			
Accounts payable	\$ 687		\$ 687
Due to other funds	-		-
TOTAL LIABILITIES	687	0	687
FUND BALANCE	<u>22,190</u>	<u>\$ 11,053</u>	<u>33,243</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 22,877</u>	<u>\$ 11,053</u>	<u>\$ 33,930</u>

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2007

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>COMBINED</u>	<u>COMBINED BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:					
Local Sources:					
Sale of meals & milk	\$ 206,734		\$ 206,734	\$ 215,084	\$ (8,350)
Admissions		\$ 63,461	63,461	53,356	10,105
Interest	654	359	1,013	150	863
Sale of supplies			-	-	-
Other	31,023	-	31,023	30,358	665
Total Local Sources	<u>238,411</u>	<u>63,820</u>	<u>302,231</u>	<u>298,948</u>	<u>3,283</u>
State Sources:					
State Lunch Aid	36,824		36,824	\$ 40,924	(4,100)
Other	-		-	-	-
Total State Sources	<u>36,824</u>	<u>-</u>	<u>36,824</u>	<u>40,924</u>	<u>(4,100)</u>
Federal Sources:					
National School Lunch Program	254,110		254,110	\$ 237,130	16,980
USDA Commodities	34,701		34,701	31,419	3,282
Total Federal Sources	<u>288,811</u>	<u>-</u>	<u>288,811</u>	<u>268,549</u>	<u>20,262</u>
TOTAL REVENUE	<u>564,046</u>	<u>63,820</u>	<u>627,866</u>	<u>608,421</u>	<u>19,445</u>
EXPENDITURES:					
School Service Activities:					
Salaries & wages	150,484	131,487	281,971	302,036	20,065
Employee benefits	66,855	27,807	94,662	95,097	435
Food & milk	265,392		265,392	263,397	(1,995)
Supplies & Other Costs	40,105	44,250	84,355	78,473	(5,882)
Capital Outlay	175	2,821	2,996	2,584	(412)
TOTAL EXPENDITURES	<u>523,011</u>	<u>206,365</u>	<u>729,376</u>	<u>741,587</u>	<u>12,211</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>41,035</u>	<u>(142,545)</u>	<u>(101,510)</u>	<u>(133,166)</u>	<u>31,656</u>
OTHER FINANCING SOURCES:					
Transfers from General Fund	-	152,420	152,420	160,000	(7,580)
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES	<u>41,035</u>	<u>9,875</u>	<u>50,910</u>	<u>\$ 26,834</u>	<u>\$ 24,076</u>
FUND BALANCE (DEFICIT) - JULY 1	<u>(18,845)</u>	<u>1,178</u>	<u>(17,667)</u>		
FUND BALANCE - JUNE 30	<u>\$ 22,190</u>	<u>\$ 11,053</u>	<u>\$ 33,243</u>		

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
June 30, 2007

	<u>1996 DEBT SERVICE</u>	<u>DURANT DEBT SERVICE</u>	<u>TOTAL DEBT SERVICE</u>
<u>ASSETS</u>			
Cash in bank	\$ 293,964	\$ -	\$ 293,964
Accounts receivable	1,789	-	1,789
Due from other funds	<u>8,942</u>	<u>-</u>	<u>8,942</u>
TOTAL ASSETS	<u>\$ 304,695</u>	<u>\$ -</u>	<u>\$ 304,695</u>
 <u>LIABILITIES & FUND BALANCE</u>			
Reserved for debt service	<u>\$ 304,695</u>	<u>\$ -</u>	<u>\$ 304,695</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 304,695</u>	<u>\$ -</u>	<u>\$ 304,695</u>

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	<u>1996 DEBT SERVICE</u>	<u>DURANT DEBT SERVICE</u>	<u>TOTAL DEBT SERVICE</u>
REVENUES FROM LOCAL SOURCES:			
Local Sources:			
Current tax levy	\$ 690,483		\$ 690,483
Interest on investments	10,641		10,641
Total Local Sources	701,124		\$ 701,124
State Sources		-	0
TOTAL REVENUES	701,124	-	701,124
EXPENDITURES:			
Bond principal	640,000	-	640,000
Bond interest	94,720	-	94,720
Other bond costs	629	-	629
TOTAL EXPENDITURES	735,349	-	735,349
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	(34,225)		(34,225)
FUND BALANCE - JULY 1	338,920	-	338,920
FUND BALANCE - JUNE 30	<u>\$ 304,695</u>	<u>-</u>	<u>\$ 304,695</u>

CASS CITY PUBLIC SCHOOLS
PRIVATE-PURPOSE TRUST AND AGENCY FUNDS
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BALANCE JUNE 30, 2006</u>	<u>CASH RECEIPTS</u>	<u>CASH DISBURSEMENTS</u>	<u>BALANCE JUNE 30, 2007</u>
AGENCY FUNDS				
ELEMENTARY SCHOOLS:				
Campbell	<u>\$ 16,309</u>	<u>\$ 27,848</u>	<u>\$ 31,359</u>	<u>\$ 12,798</u>
TOTAL ELEMENTARY SCHOOLS	<u>16,309</u>	<u>27,848</u>	<u>31,359</u>	<u>12,798</u>
HIGH SCHOOL & MIDDLE SCHOOL:				
High School	<u>34,303</u>	<u>144,463</u>	<u>134,811</u>	<u>43,955</u>
Middle School	<u>40,740</u>	<u>141,742</u>	<u>142,017</u>	<u>40,465</u>
TOTAL HIGH SCHOOL & MIDDLE SCHOOL	<u>75,043</u>	<u>286,205</u>	<u>276,828</u>	<u>84,420</u>
TOTAL AGENCY FUNDS	<u>\$ 91,352</u>	<u>\$ 314,053</u>	<u>\$ 308,187</u>	<u>\$ 97,218</u>
GENERAL FUND:				
Office accounts	<u>\$ 17,391</u>	<u>\$ 4,458</u>	<u>\$ 3,539</u>	<u>\$ 18,310</u>

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT
1996 DEBT RETIREMENT FUND
June 30, 2007

Purpose of Issue: Erecting, furnishing and equipping a new middle school building.

<u>DUE DATE</u>	<u>PRINCIPAL</u>	<u>RATES</u>	<u>INTEREST DUE</u>	<u>PAYMENT DUE</u>
11/1/2007			\$ 31,680	\$ 31,680
5/1/2008	\$ 640,000	4.90	31,680	671,680
11/1/2008			16,000	16,000
5/1/2009	<u>640,000</u>	5.00	<u>16,000</u>	<u>656,000</u>
TOTAL	<u>\$ 1,280,000</u>		<u>\$ 95,360</u>	<u>\$ 1,375,360</u>

The bonds are not subject to optional redemption prior to maturity.

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT - DURANT BONDS
June 30, 2007

\$125,068 Durant Bond issued November 24, 1998:

PRINCIPAL DUE MAY 15	INTEREST DUE MAY 15	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		JUNE 30	AMOUNT
-	-	2008	-
\$ 6,960	\$ 1,822	2009	\$ 8,782
20,276	6,071	2010	26,347
7,639	1,144	2011	8,783
8,002	780	2012	8,782
8,383	399	2013	8,782
<u>\$ 51,260</u>	<u>\$ 10,216</u>		<u>\$ 61,476</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing school buildings and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF PAYMENTS ON ENERGY PROGRAM LOAN
June 30, 2007

			DEBT SERVICE REQUIREMENT FOR FISCAL YEAR
<u>DUE DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST DUE</u>	<u>AMOUNT</u>
10/4/2007	\$ 26,583	\$ 24,948	\$ 51,531
4/4/2008	29,220	24,396	53,616
10/4/2008	29,826	23,790	53,616
4/4/2009	32,252	23,171	55,423
10/4/2009	32,922	22,502	55,424
4/4/2010	33,605	21,819	55,424
10/4/2010	34,302	21,122	55,424
4/4/2011	35,014	20,410	55,424
10/4/2011	35,740	19,683	55,423
4/4/2012	36,482	18,942	55,424
10/4/2012	37,239	18,185	55,424
4/4/2013	38,013	17,412	55,425
10/4/2013	38,800	16,623	55,423
4/4/2014	39,605	15,818	55,423
10/4/2014	40,427	14,996	55,423
4/4/2015	41,266	14,157	55,423
10/4/2015	42,122	13,301	55,423
4/4/2016	42,996	12,427	55,423
10/4/2016	43,889	11,535	55,424
4/4/2017	46,600	10,624	57,224
10/4/2017	47,567	9,657	57,224
4/4/2018	48,554	8,670	57,224
10/4/2018	49,562	7,663	57,225
4/4/2019	50,590	6,634	57,224
10/4/2019	51,640	5,585	57,225
4/4/2020	52,711	4,513	57,224
10/4/2020	53,805	3,419	57,224
4/4/2021	54,921	2,303	57,224
10/4/2021	56,060	1,164	57,224
	<u>\$ 1,202,313</u>	<u>\$ 415,469</u>	<u>\$ 1,617,782</u>

The above bond issue bears interest at 4.15%. The bond proceeds were used for purchasing and installation for energy efficient building components.

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BUS NOTE PAYMENTS
June 30, 2007

MATURITY DATE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR		
	PRINCIPAL DUE	INTEREST DUE	AMOUNT
7/19/2007	\$ 22,362	\$ 5,492	\$ 27,854
7/19/2008	23,367	4,488	27,855
7/19/2009	24,416	3,439	27,855
7/19/2010	25,512	2,342	27,854
7/19/2011	26,657	1,197	27,854
	<u>\$ 122,314</u>	<u>\$ 16,958</u>	<u>\$ 139,272</u>

The above bond issue bears interest at 4.49%.
The loan proceeds were used for purchasing new school buses.

See the accompanying notes.



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

August 29, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Cass City Public School District
Cass City, MI 48726

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools' as of and for the year ended June 30, 2007, which collectively comprise Cass City Public Schools' basic financial statements and have issued our report thereon dated August 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cass City Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as 2007-1 we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cass City Public Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Cass City Public Schools in a separate letter dated August 29, 2007.

Cass City Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Cass City Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

August 29, 2007

To the Board of Education
Cass City Public School District
Cass City Public, MI 48726

Schedule of Finding and Responses

Findings considered material weaknesses

Finding 2007-1

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

After considering the qualifications of the accounting personnel of Cass City Public Schools, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Cause:

The staff of the district does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years

CASS CITY PUBLIC SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED
BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2007

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Gary R. Anderson, CPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 29, 2007

To the Board of Education
Cass City Public Schools
Cass City, MI 48726

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools' as of and for the year ended June 30, 2007, which collectively comprise Cass City Public Schools' basic financial statements and have issued our report thereon dated August 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Cass City Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cass City Public School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cass City Public Schools' internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as 2007-01 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as 2007-01, we consider to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Cass City Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Cass City Public Schools in a separate letter dated August 29, 2007.

Cass City Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Cass City Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 29, 2007

To the Board of Education
Cass City Public Schools
Cass City, MI 48726

COMPLIANCE

We have audited the compliance of Cass City Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Cass City Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Cass City Public Schools' management. Our responsibility is to express an opinion on Cass City Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cass City Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cass City Public Schools' compliance with those requirements.

In our opinion, Cass City Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of Cass City Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cass City Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Cass City Public School's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

To the Board of Education
August 29, 2007

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Cass City Public School's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Cass City Public School's response and, accordingly, we express no opinion on it.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated August 29, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Cass City Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CASS CITY PUBLIC SCHOOLS, CASS CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2007
U.S. DEPARTMENT OF EDUCATION:								
Passed through Michigan Dept. of Education:								
ECIA Title I	84.010	071530 0607	\$ 270,945			\$ 270,945	\$ 270,945	\$ -
ECIA Title I, Carryover	84.010	061530 0607	19,566			19,566	19,566	-
Title II A	84.367	060520 0607	22,985			22,985	22,985	-
Title II A	84.367	070520 0607	64,659			64,659	64,659	-
Title V - Part A	84.298	070250 0607	1,223			1,223	1,223	-
Technology Literacy Challenge Grant	84.318	074290 0607	2,812			2,812	2,812	-
Handicapped Preschool	84.027	070440 0607	4,500			4,500	4,500	-
TOTAL U.S. DEPARTMENT OF EDUCATION								
			386,690	-	-	386,690	386,690	-
TRANSFERS FROM OTHER GOVERNEMENTAL UNITS:								
Tuscola Intermediate School District:								
Tech Prep	84.243A	5014.11	2,696			2,696	2,696	
U.S. DEPARTMENT OF AGRICULTURE:								
Passed through Michigan Dept. of Education:								
National School Lunch Program	10.555		203,928			203,928	203,928	
Food Distribution Entitlement	10.550		34,701			34,701	34,701	
National School Lunch & Breakfast Program	10.553		48,282			48,282	48,282	
Summer Food Program	10.559		1,900			1,900	1,900	
TOTAL U.S. DEPARTMENT OF AGRICULTURE								
			288,811	-	-	288,811	288,811	-
TOTAL FEDERAL FINANCIAL ASSISTANCE								
			\$ 678,197	\$ -	\$ -	\$ 678,197	\$ 678,197	\$ -

**CASS CITY PUBLIC SCHOOL DISTRICT, CASS CITY, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Cass City Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Hot Lunch cluster (CFDA numbers 10.550, 10.555, and 10.553) was audited as a major program representing 42.6% of federal expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000. This schedule was prepared on the modified accrual basis of accounting.
4. Management has utilized the Grant Section Auditor's Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. The amount reported on the Receipt Entitlement Balance Report agrees with this schedule for the USDA donated food commodities.
6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	\$389,386
Special Revenue Fund	<u>288,811</u>
Total per financial statements	<u>\$678,197</u>
 Total expenditures per the SEFA	 <u>\$678,197</u>

**CASS CITY PUBLIC SCHOOL DISTRICT, CASS CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: X Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.550, 10.555, and 10.553

Hot Lunch

Dollar threshold used to distinguish between type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes No

**CASS CITY PUBLIC SCHOOL DISTRICT, CASS CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section II – Financial Statement Findings

Findings considered material weaknesses

Finding 2007-1

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

After considering the qualifications of the accounting personnel of Cass City Public Schools, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Cause:

The staff of the district does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years

Section III – Federal Award Findings and Questioned Costs

None

**CASS CITY PUBLIC SCHOOL DISTRICT, CASS CITY, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no prior year audit findings for the year ended June 30, 2006.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

August 29, 2007

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

To the Board of Education
Cass City Public Schools
Cass City, Michigan

In planning and performing our audit of the financial statements of Cass City Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cass City Public School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 29, 2007 on the financial statements of Cass City Public Schools. Our comments are summarized as follows:

Audit Adjustments

Several adjustments were not made to accurately reflect the transactions taking place at year-end. Even though the adjustments were immaterial, the failure to make adjustments increases the risk that the financial statements will be misstated and that inaccurate financial information may be used by management for decisions and reporting. Adjustments to correct the District's books were proposed by the external auditor and accepted and recorded by the client.

We recommend that the District review year-end transactions each year and record journal entries for any transactions not recorded prior to closing the books at June 30th.

Account Reconciliations

During the year, cash and other balance sheet accounts were not adjusted monthly. This can cause inaccurate interim financial information that may be used for management decisions and reporting.


We recommend the District implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis.

To the Board of Education
August 29, 2007
Page 2

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of Cass City Public Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.


Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants